

Financial Statements

**Van Buren Community
Mental Health Authority**

Paw Paw, Michigan

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Van Buren Community Mental Health Authority	County Van Buren
Audit Date 9/30/04	Opinion Date 11/19/04	Date Accountant Report Submitted to State: 3/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROSUND, PRESTAGE & CO., PC, CPA'S			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant Signature <i>Ch. P. + 2 CPA</i>		ZIP 48801	Date 3/25/05

Van Buren Community Mental Health Authority
Table of Contents
September 30, 2004

Independent Auditor's Report	
Management's Discussion and Analysis	I - V
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5 - 6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to the Financial Statements	11 - 23
Required Supplemental Information:	
Budgetary Comparison Schedules	24 - 26
Other Supplemental Financial Information:	
Individual Fund Statements:	
General Fund - Statement of Expenditures	27 - 28
Government Auditing Standards Report	29 - 30



INDEPENDENT AUDITOR'S REPORT

Van Buren Community Mental Health Authority
Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Van Buren Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-V, and budgetary comparison information on page 24 – 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 19, 2004

MANAGEMENT'S DISCUSSION and ANALYSIS

**Van Buren Community Mental Health Authority
Management's Discussion and Analysis
For the fiscal year ended September 30, 2004**

The management of Van Buren Community Mental Health Authority (VBCMHA) presents the following discussion and analysis of financial activities during the fiscal year ended September 30, 2004. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (MDCH), VBCMHA began in FY 2002-2003 receiving a sub-capitation Medicaid funding directly from Summit Pointe (a.k.a. Calhoun County Community Mental Health Authority). Summit Pointe is the regional Prepaid Inpatient Health Plan (PIHP) responsible for administering mental health and substance abuse services for a five county affiliation consisting of Barry, Berrien, Branch, Calhoun and Van Buren counties. The affiliation, known as Venture Behavioral Health, operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act (ITFRA).

BASIC FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements: Government-wide Statements and Fund Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursements.

**Van Buren Community Mental Health Authority
Management's Discussion and Analysis
For the fiscal year ended September 30, 2004**

Fund financial statements offer a series of statements that focus on the major governmental funds. These statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. The governmental fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. For VBCMHA, the major funds consist of the General Fund and the New Outlook Fund (which are categorized as Governmental Funds). Reconciliations are also offered between the Fund Financial Statements and the Government - wide Financial Statements. The VBCMHA Internal Service Fund, a risk insurance requirement, is reported separately and categorized as a Proprietary Fund. The proprietary fund is reported on the accrual basis of accounting, similar to the government-wide statements described above.

NOTES TO FINANCIAL STATEMENTS

The Notes to Financial Statements which immediately follow the financial statements provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements. Items concerning significant accounting policies, stewardship, compliance and accountability, as well as, detailed notes on all assets and liabilities are provided in this section.

KEY FINANCIAL INDICATORS - General Fund

	VBCMHA A FY 04	VBCMHA FY 03	Industry Benchmarks
<u>Self-Sufficiency</u>			
Net Income as % of Fund Balance	4.0	.15	6.3
<u>Financial Stability</u>			
Current Assets to Current Liabilities	3.6	3.4	2.3
Total Liabilities to Fund Balance	.33	.4	.6
Fixed Assets to Fund Balance	.11	.12	.65
Cash Available for Fund Balance, %	1.06	1.10	N/A

Van Buren Community Mental Health Authority
Management's Discussion and Analysis
For the fiscal year ended September 30, 2004

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (median) benchmarks as provided by Dun & Bradstreet for the specialty outpatient clinic industry.

STATEMENT OF CHANGES IN FUND BALANCES / NET ASSETS

General Fund	Balance 10-1-03	Increase (Decrease)	Balance 9-30-04
Unreserved / Reserved for Prepaid Assets	1,365,779	96,615	1,462,394
Reserved for Medicaid Savings	490,680	-0-	490,680
Reserved for Compensated Absences	348,135	(7,132)	341,003
Capital Assets	259,019	3,202	262,221
Net Outlook Fund	289,254	3,995	293,249
Total Governmental Funds	2,752,867	96,680	2,849,547
Internal Service Fund	128,035	(128,035)	-0-

Fund Balances are not just affected by the positive or negative balances of Revenues over Expenses for the current year. The following analysis is offered to aide the reader in understanding how other financial transactions impact the ending balances.

GENERAL FUND

	Unreserved	Reserved for Medicaid Savings	Compensated Absences	Capital Assets
Beginning Balance	1,365,779	490,680	348,135	259,019
Revenue / Expense	103,793	-	-	-
Capital Outlay	(152,842)	-	-	152,842
Depreciation Expense	140,481	-	-	(140,481)
Equipment Dispositions	-	-	-	(9,159)
Compensated Absences	7,132	-	(7,132)	-
Prior Adjustment	(129,984)	-	-	-
Prior Adjustment	128,035	-	-	-
Ending Balance	1,462,394	490,680	341,003	262,221

**Van Buren Community Mental Health Authority
Management's Discussion and Analysis
For the fiscal year ended September 30, 2004**

New Outlook Fund

Beginning Balance	289,254
Revenues / Expenses	3,995
Ending Balance	293,249

Internal Service Fund

Beginning Balance	128,035
Prior Adjustment	-128,035
Ending Balance	-0-

REVENUES AND EXPENDITURES

Revenues: FY 04 audited revenues for governmental funds (in accordance with GAAP, and the requirements of GASB 34) are \$13,353,202 plus a fund transfer of \$942. These amounts are included in the MDCH final report of revenues for a total of \$13,354,144. This compares to FY 03 reportable revenues of \$13,099,182, for an increase of revenues of \$254,962 (a 2% increase). This increase is mainly attributable to Medicaid and Adult Benefit Waiver (ABW) funds.

Expenditures: FY 04 audited expenditures for governmental funds (in accordance with GAAP, and the requirements of GASB 34) are \$13,258,717; capital outlay versus current year depreciation expense (-\$121,833); and compensated absences (-\$7,132). These amounts are included in the MDCH final report of expenditures for a total of \$13,129,752. This compares to FY 03 reportable expenditures of \$13,095,765, for an increase of expenditures of \$33,987 (a 0.3% increase).

Van Buren Community Mental Health Authority
Management's Discussion and Analysis
For the fiscal year ended September 30, 2004

SIGNIFICANT EVENTS

In January, 2004 MDCH rebased the Medicaid capitation rates paid to the PHIP which resulted in region wide decreases to Medicaid revenues and region wide increases (corresponding to the state share of the Medicaid match) to the state General Funds (GF). However, due to a combination of an increased number of Medicaid eligible consumers and a reduction of central administrative expenses by the PHIP, VBCMHA recognized a 3% increase in Medicaid revenues. Although VBCMHA realized an increase to the GF allocation due to the above (+\$210,000), it also endured a GF reduction (-\$346,000) due to a new Medicaid funding stream, the Adult Benefit Waiver (ABW). The net effect of the gains and losses was a decrease of over (-\$136,000) for the state GF allocation. The ABW program provided replacement revenues of \$346,000 covering those persons who were formerly entitled to benefits under the state medical program. ABW revenues in excess of expenditures are retained and become designated as local funds in the following year. In FY 04, VBCMHA had excess ABW revenues of \$206,962.

Late in FY 04, VBCMHA received notification from their risk insurance carrier, that they would no longer be offering that coverage retroactive to the beginning of the fiscal year, October 1, 2003. This required the abatement of the self-retention (ISF) which had been established based upon the insurance policy requirements. A prior period adjustment has been made in FY 04 to record the transactions associated with this abatement and adjustments to FY 03. The MDCH has accepted a revision to the final FY 03 Contract Reconciliation and Cash Settlement reflecting the above abatement and adjustments.

ABOUT THE FUTURE

The State of Michigan continues to be faced with a revenue budget shortfall and increased Medicaid obligations, which make the near-term outlook for mental health service providers very uncertain. In FY 04, much focus was on data collection and number of units provided based upon procedure codes, so as to justify the Medicaid capitation payments. Although we are in a "managed care" environment, the focus is as if we were "fee for service" and unit cost driven. There is a movement afoot to revamp the managed healthcare system in the State. And, we understand, that the State will once again re-base the rates for Medicaid capitation payments effective in FY 06. Regional PIHP(s) and their affiliates may again face Medicaid funding reductions. State General Fund appropriations continue to be at risk of being reduced as the State struggles with ongoing deficits.

VBCMHA will continue to focus on the services that we provide, looking at alternatives where appropriate and feasible, but with the continued realization that programmatic changes and reductions may be inevitable.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Van Buren Community Mental Health Authority
Statement of Net Assets
September 30, 2004 and 2003

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash and cash equivalents	\$2,532,777	\$2,556,239
Accounts receivable, net	58,674	104,777
Due from other governmental units	245,861	267,766
Prepaid items	175,674	167,421
Total current assets	<u>3,012,986</u>	<u>3,096,203</u>
Noncurrent assets		
Cash and cash equivalents - restricted	330,160	325,390
Capital assets - depreciable, net	262,221	259,019
Total noncurrent assets	<u>592,381</u>	<u>584,409</u>
Total assets	<u>3,605,367</u>	<u>3,680,612</u>
Liabilities		
Current liabilities		
Accounts payable	530,607	525,094
Accrued wages and other payroll liabilities	89,896	270,150
Due to other governmental units	135,317	4,466
Total current liabilities	<u>755,820</u>	<u>799,710</u>
Noncurrent liabilities		
Compensated absences	367,090	385,140
Total liabilities	<u>1,122,910</u>	<u>1,184,850</u>
Net Assets		
Invested in capital assets, net of related debt	262,221	259,019
Reserved for grant	293,249	289,254
Reserved for risk management	-	128,035
Reserved for Medicaid savings	490,680	490,680
Unrestricted	1,436,307	1,328,774
Total net assets	<u>\$2,482,457</u>	<u>\$2,495,762</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Activities

For the year ended September 30, 2004
(With Comparative Totals as of September 30, 2003)

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	\$13,237,465	\$10,157,574	\$3,173,390	\$93,499	(\$363,788)
General revenues					
Unrestricted investment earnings				22,238	27,408
Restricted investment earnings				942	1,079
Total general revenues				23,180	28,487
Change in net assets					
Net assets - beginning of year				116,679	(335,301)
Prior period adjustment				2,495,762	2,815,074
Net assets - end of year				(129,984)	15,989
				\$2,482,457	\$2,495,762

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Van Buren Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2004 and 2003

	MAJOR FUNDS			
	General Fund	New Outlook Fund	Total Governmental Funds	2003
Assets				
Cash and cash equivalents	\$2,112,243	\$291,557	\$2,403,800	\$2,435,475
Accounts receivable, net	58,333	341	58,674	104,777
Due from other governmental units	236,511	9,350	245,861	267,766
Due from other funds	128,977	-	128,977	-
Prepaid items	175,674	-	175,674	167,421
Cash and investments - Restricted	330,160	-	330,160	325,390
Total Assets	\$3,041,898	\$301,248	\$3,343,146	\$3,300,829
Liabilities				
Accounts payable	\$526,961	\$3,646	\$530,607	\$525,094
Accrued wages and other payroll liabilities	85,543	4,353	89,896	270,150
Due to other governmental units	135,317	-	135,317	4,466
Due to other funds	-	-	-	7,271
Total liabilities	747,821	7,999	755,820	806,981
Fund balances				
Restricted for grant	-	293,249	293,249	289,254
Reserved for prepaid items	175,674	-	175,674	167,421
Reserved for Medicaid savings	490,680	-	490,680	490,680
Reserved for compensated absences	341,003	-	341,003	348,135
Unreserved	1,286,720	-	1,286,720	1,198,358
Total fund balances	2,294,077	293,249	2,587,326	2,493,848
Total liabilities and fund balances	\$3,041,898	\$301,248	\$3,343,146	\$3,300,829

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended September 30, 2004

Total fund balance - governmental funds	\$2,587,326
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,226,232
Deduct: accumulated depreciation	(964,011)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(367,090)</u>
Net assets of governmental activities	<u><u>\$2,482,457</u></u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2004 and 2003

	MAJOR FUNDS		Total Governmental Funds	2003
	General Fund	New Outlook Fund		
REVENUES				
State grants				
Department of Community Health Contract	\$2,033,028	-	\$2,033,028	\$2,169,793
General Fund Formula and Categorical				
Adult Benefit Waiver	346,279		346,279	-
Title XX	13,017	-	13,017	13,017
Total state grants	<u>2,392,324</u>	<u>-</u>	<u>2,392,324</u>	<u>2,182,810</u>
Federal grants	<u>302,009</u>	<u>-</u>	<u>302,009</u>	<u>318,214</u>
Contributions - local units				
County appropriations	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>300,000</u>
Charges for services				
Medicaid - Venture contract	9,143,157	\$358,700	9,501,857	9,243,848
Medicaid - other	111,127	-	111,127	60,694
Client and third party pay	226,504	1,532	228,036	214,217
Other earned revenue	204,213	112,341	316,554	335,756
Total charges for services	<u>9,685,001</u>	<u>472,573</u>	<u>10,157,574</u>	<u>9,854,515</u>
Interest and rents				
Interest	<u>20,230</u>	<u>2,008</u>	<u>22,238</u>	<u>27,408</u>
Other revenue				
MTI income	135,809	-	135,809	168,601
United Way	33,750	-	33,750	45,000
Miscellaneous	9,498	-	9,498	10,394
Total other revenue	<u>179,057</u>	<u>-</u>	<u>179,057</u>	<u>223,995</u>
Total revenues	12,878,621	474,581	13,353,202	12,906,942

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2004 and 2003

	MAJOR FUNDS			
	<u>General Fund</u>	<u>New Outlook Fund</u>	<u>Total Governmental Funds</u>	<u>2003</u>
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel costs	\$6,512,167	\$328,851	\$6,841,018	\$6,850,988
Operating expenditures	6,188,092	76,765	6,264,857	6,220,716
Capital outlay	152,842	-	152,842	7,154
Total expenditures	<u>12,853,101</u>	<u>405,616</u>	<u>13,258,717</u>	<u>13,078,858</u>
Excess of revenues over expenditures	25,520	68,965	94,485	(171,916)
Other financing sources (uses)				
Operating transfers in (out)	<u>65,912</u>	<u>(64,970)</u>	<u>942</u>	<u>(7,271)</u>
Excess of revenues and other sources				
Over expenditures and other uses	91,432	3,995	95,427	(179,187)
Fund balance, October 1	2,204,594	289,254	2,493,848	2,657,046
Prior period adjustment	<u>(1,949)</u>	<u>-</u>	<u>(1,949)</u>	<u>15,989</u>
Fund balance, September 30	<u>\$2,294,077</u>	<u>\$293,249</u>	<u>\$2,587,326</u>	<u>\$2,493,848</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended September 30, 2004

Net change in fund balances - total governmental funds	\$95,427
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	152,842
Deduct: depreciation expense	(140,481)
Sale of capital asset proceeds are recognized as revenues in the governmental funds, but only the gain is recognized as revenues in the statement of activities	(9,159)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrual for compensated absences	<u>18,050</u>
Change in net assets of governmental activities	<u><u>\$116,679</u></u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Net Assets
Proprietary Funds
September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$128,977	\$120,764
Due from other Funds	<u>-</u>	<u>7,271</u>
Total Assets	<u>128,977</u>	<u>128,035</u>
Liabilities		
Due to other funds	<u>128,977</u>	<u>-</u>
Net Assets		
Restricted	<u>-</u>	<u>\$128,035</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the years ended September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Non-operating revenues		
Interest income	\$942	\$1,079
Operating transfers		
Operating transfers in (out) - other funds	<u>(942)</u>	<u>7,271</u>
Change in net assets	-	8,350
Net assets, beginning of year	128,035	119,685
Prior period adjustment	<u>(128,035)</u>	<u>-</u>
Net assets, end of year	<u><u>-</u></u>	<u><u>\$128,035</u></u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Cash Flows
Proprietary Funds
For the years ended September 30, 2004 and 2003

	Internal Service Funds	
	2004	2003
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers in	\$7,271	-
Cash flows from investing activities		
Proceeds from interest earnings	942	\$1,079
Net increase (decrease) in cash	8,213	1,079
Cash and cash equivalents, beginning of year	120,764	119,685
Cash and cash equivalents, end of year	<u>\$128,977</u>	<u>\$120,764</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Van Buren Community Mental Health Authority
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Van Buren Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The significant changes included in Statement No. 34 include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Van Buren County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Van Buren Community Mental Health Authority
Notes to Financial Statements

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

New Outlook Fund - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Van Buren County.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Cash - Restricted

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Fixed Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer Equipment	5
Office Equipment	5 - 10
Automobiles	7

Van Buren Community Mental Health Authority
Notes to Financial Statements

Compensated Absences

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present expenditures and the related liability when these compensated absences are earned.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Van Buren Community Mental Health Authority
Notes to Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund and new outlook fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on pages 25 – 26 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, 2004, the carrying amount of the Authority's cash and cash equivalents was \$2,862,937. GASB Statement #3 - risk disclosures regarding cash deposits for the Authority is not available since one of the bank accounts is in the name of Van Buren County.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2004	2003
Calhoun County CMH Authority	\$109,174	\$168,148
Federal Grants Receivable	15,164	36,199
State of Michigan – Medicaid – Children Waiver	51,665	19,000
Other Governmental Units	69,858	44,419
Totals	\$245,861	\$267,766

Van Buren Community Mental Health Authority
Notes to Financial Statements

Capital Assets

A summary of changes in the Authority's capital assets is as follows:

Assets	Balance 10-1-03	Additions	Disposals	Balance 9-30-04
Computer Equipment	\$150,391	\$152,842	-	\$303,233
Office Equipment	320,602	-	-	320,602
Vehicles	668,291	-	\$65,894	602,397
Sub-totals	1,139,284	152,842	65,894	1,226,232
Accumulated Depreciation	880,265	140,481	56,735	964,011
Net Capital Assets	\$259,019	\$12,361	\$9,159	\$262,221

The proprietary fund did not have any fixed assets as of September 30, 2004.

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2004	2003
Department of Community Health	\$117,784	\$4,466
Calhoun County CMH Authority	17,533	-
Totals	\$135,317	\$4,466

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Long-Term Debt – Compensated Absences

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used, upon termination of employment, or in accordance with a certain "payment in lieu of using discretionary hours" policy of the Authority.

The Authority also has a contract with the Executive Director that includes a severance pay base plus additional amounts based on length of employment with the Authority.

As of September 30, 2004 and 2003, compensated absences liability was \$367,090 and \$385,140, respectively.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Prior Period Adjustments

The prior period adjustments shown in these financial statements are adjustments to beginning balances for assets and liabilities, and were identified during the subsequent fiscal year.

Venture Contract

Beginning October 1, 2002, the Medicaid Funds for Barry, Berrien, Branch, Calhoun and Van Buren Counties will be paid to Calhoun County Community Mental Health Authority, also known as Summit Pointe. The contract for these Medicaid Funds will be between the MDCH and Summit Pointe, and will be administered by a division of Summit Pointe, known as Venture. Venture is an administrative board and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITFRA). The Venture administrative board consists of two voting Members from each of the five member counties.

Summit Pointe in turn contracts with Van Buren Community Mental Authority for Medicaid funding.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Operating Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in these financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$139,863
2006	139,622
2007	138,794
2008	140,933
2009	144,900
2010	-

Retirement System

The employees of the Authority are eligible to participate in the Van Buren County Retirement Plans, which include a 457 Deferred Compensation Plan and a 401(a) Employee Thrift Plan. These plans are available to all employees hired to perform at least 900 hours of service per year.

Employee deferrals to the 457 plan are allowed in accordance with Internal Revenue Code limitations. The Authority will match employee contributions up to a maximum of 6% of wages for union employees and 7% for non-union employees. Employer contributions will be made to the 401(a) plan.

Employee contributions are fully vested at all times. Employer contribution's for each employee becomes fully vested after 4 years of employment with the Authority.

For the September 30, 2004 fiscal year, employer contributions to the plan totaled \$251,729 and employee contributions totaled \$309,887. The total payroll for the year ending September 30, 2004 was \$5,190,367.

Van Buren Community Mental Health Authority
Notes to Financial Statements

Alternative Social Security Plan

Effective January 1, 2000, certain employees of the Authority participate in a tax qualified retirement plan in lieu of the Social Security Retirement System. Employee contributions to this plan are at the rate of 6.2% of gross wages, with an equal amount contributed by the employer. The employee / employer contribution rates are the same as if participating in the Social Security Retirement System. Under this plan, all contributions are immediately vested with the employee. Employees who do not participate in this plan are required to participate in the Social Security Retirement System.

Risk Management – Internal Service Fund

During the September 30, 2001 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund. Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the contract requirements than revenue provided by the contract.

Risk Management - Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

Van Buren Community Mental Health Authority
Notes to Financial Statements

MMRMA coverage limits are between \$2,000 and \$15,000,000 for liability, and between \$10,000 and \$100,000,000 for property and crime.

The contribution made by the Authority to the MMRMA was \$91,029 for the period July 1, 2003 to July 1, 2004.

Settled claims, if any, for the MMRMA have not exceeded the amount of coverage in any of the past three years and there was no reduction in coverage during the past year.

Commitments and Contingencies

As of September 30, 2004, the Authority had the following contingencies which are not recognized in these financial statements:

- Michigan Department of Community Health (MDCH) compliance audit for the 2002 fiscal year – preliminary report indicates \$137,133 is due from the Authority to the MDCH. The Authority, however, contests some of the issues noted in the report and feel that a final amount of liability is uncertain. The Authority is still in the negotiation stage with the MDCH regarding this compliance audit.
- As of September 30, 2003, the Authority canceled a certain contract with a computer consulting company (the company). Subsequent to canceling this contract, the company billed the Authority an additional \$128,000. The Authority has offered the company, and accrued in these financial statements, \$67,761 for payment in full for any and all past services the company has provided the Authority.

REQUIRED SUPPLEMENTAL INFORMATION

Van Buren Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$2,144,499	\$2,033,028	\$2,033,028	-
Adult Benefit Waiver	-	346,279	346,279	-
Title XX	13,017	13,017	13,017	-
Total state grants	<u>2,157,516</u>	<u>2,392,324</u>	<u>2,392,324</u>	<u>-</u>
Federal grants	<u>333,835</u>	<u>309,061</u>	<u>302,009</u>	<u>(\$7,052)</u>
Contributions - local units				
County appropriations	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Charges for services				
Medicaid - Venture contract	8,897,048	9,164,590	9,143,157	(21,433)
Medicaid - other	71,000	115,000	111,127	(3,873)
Client and third party pay	218,500	225,200	226,504	1,304
Other earned revenue	202,893	204,743	204,213	(530)
Total charges for services	<u>9,389,441</u>	<u>9,709,533</u>	<u>9,685,001</u>	<u>(24,532)</u>
Interest and rents				
Interest	<u>22,728</u>	<u>22,182</u>	<u>20,230</u>	<u>(1,952)</u>
Other revenue				
MTI income	138,000	136,000	135,809	(191)
United Way	37,500	37,500	33,750	(3,750)
Miscellaneous	10,300	18,400	9,498	(8,902)
Total other revenue	<u>185,800</u>	<u>191,900</u>	<u>179,057</u>	<u>(12,843)</u>
Total revenues	12,389,320	12,925,000	12,878,621	(46,379)

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2004

Expenditures	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Health & Welfare - Mental Health				
Personnel costs	\$6,731,834	\$6,654,046	\$6,512,167	\$141,879
Operating expenditures	5,657,486	6,270,954	6,188,092	82,862
Capital outlay	-	-	152,842	(152,842)
Total expenditures	<u>12,389,320</u>	<u>12,925,000</u>	<u>12,853,101</u>	<u>71,899</u>
Revenues over (under) expenditures	-	-	25,520	25,520
Other financing sources (uses)				
Operating transfers in (out)	-	-	65,912	65,912
Excess of revenues and other sources over expenditures and other uses	-	-	91,432	91,432
Fund balance, beginning of year	2,204,594	2,204,594	2,204,594	-
Prior period adjustment	-	-	(1,949)	(1,949)
Fund balance, end of year	<u>\$2,204,594</u>	<u>\$2,204,594</u>	<u>\$2,294,077</u>	<u>\$89,483</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
New Outlook Fund
For the year ended September 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services				
Medicaid - Venture contract	\$346,800	\$354,800	\$358,700	\$3,900
Client and third party pay	6,000	1,500	1,532	32
Other earned revenue	112,200	112,300	112,341	41
Total charges for services	<u>465,000</u>	<u>468,600</u>	<u>472,573</u>	<u>3,973</u>
Interest and rents				
Interest	<u>5,000</u>	<u>1,400</u>	<u>2,008</u>	<u>608</u>
Total revenues	470,000	470,000	474,581	4,581
Expenditures				
Health & Welfare - Mental Health				
Personnel costs	298,138	298,138	328,851	(30,713)
Operating expenditures	<u>171,862</u>	<u>171,862</u>	<u>76,765</u>	<u>95,097</u>
Total expenditures	<u>470,000</u>	<u>470,000</u>	<u>405,616</u>	<u>64,384</u>
Revenues over (under) expenditures	-	-	68,965	68,965
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(64,970)</u>	<u>(64,970)</u>
Excess of revenues and other sources over expenditures and other uses	-	-	3,995	3,995
Fund balance, beginning of year	<u>289,254</u>	<u>289,254</u>	<u>289,254</u>	<u>-</u>
Fund balance, end of year	<u>\$289,254</u>	<u>\$289,254</u>	<u>\$293,249</u>	<u>\$3,995</u>

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTARY INFORMATION

Van Buren Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the year ended September 30, 2004 and 2003

Governmental Fund Types

	<u>General Fund</u>	
	<u>2004</u>	<u>2003</u>
Personnel Costs		
Salaries And Wages	\$4,932,270	\$4,979,753
Fringe Benefits	<u>1,579,897</u>	<u>1,562,793</u>
Total Personnel Costs	<u><u>\$6,512,167</u></u>	<u><u>\$6,542,546</u></u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the year ended September 30, 2004 and 2003

Governmental Fund Types

	<u>General Fund</u>	
	<u>2004</u>	<u>2003</u>
Operating Expenditures		
Communications	\$109,760	\$125,615
Contractual Services	4,637,314	4,455,717
Insurance	88,737	189,384
Local Funds Contribution	218,294	218,294
Other	51,899	50,111
Rents and Utilities	445,975	404,300
Repairs and Maintenance	97,895	75,377
Supplies	228,482	206,306
Transportation	138,337	165,558
Travel and Conferences	171,399	141,278
	<hr/>	<hr/>
Total Operating Expenditures	<u><u>\$6,188,092</u></u>	<u><u>\$6,031,940</u></u>

See Accompanying Notes To Financial Statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Van Buren Community Mental Health Authority
Paw Paw, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Van Buren Community Mental Health Authority as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated November 19, 2004.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 19, 2004



MANAGEMENT LETTER

Board of Directors
Van Buren Community Mental Health Authority
Paw Paw, Michigan


In planning and performing our audit of the financial statements for Van Buren Community Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 19, 2004 on the financial statements of Van Buren Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,


Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 19, 2004

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Authority perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

Perform a Fraud Risk Assessment (continued)

- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many companies to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Perform a Fraud Risk Assessment (continued)

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.